



Office of the County Executive

Jack Doyle
County Executive

October 8, 2002

To The Honorable
Monroe County Legislature
Room 407
39 West Main Street
Rochester, NY 14614

Honorable Legislators:

I am pleased to submit for your review and approval the 2003 Operating Budget for the County of Monroe. This budget contains many necessary reductions in discretionary spending to deal with the crippling effects of ever-growing cost increases for mandated programs. This reality is faced not only by Monroe County, but virtually every county in New York State. However, unlike others, this budget addresses the seemingly unending challenge of increasing mandated costs without raising property taxes for an unprecedented 11th consecutive year.

In spite of the fiscal challenges we face, this budget contains over \$2 million in restorations for numerous community programs and services. The funding of these programs will be made possible by the receipt of increased revenues through the more aggressive pursuit of delinquent taxpayers. The restorations from previously announced reductions include:

- **Monroe County Parks** – All parks will remain open on weekdays in 2003, and Ontario Beach will remain open for swimming. The total cost of these restorations is \$1.2 million.
- **Road Maintenance** – Town highway departments will continue to play a crucial role in maintaining the safety of our County roadways. Funding for some maintenance, sweeping, mowing and animal pickup slated for elimination in the 2003 budget has been restored at a level of \$250,000.
- **Monroe County Library** – Saturday has always been a day for parents and children to enjoy the wonders of our libraries. That's why, I'm pleased to announce that Saturday hours will continue at the Central Library in 2003. In addition, the library's popular reservation service via the Internet will also be restored. The total cost of these restorations is \$200,000.
- **Authorized Agencies** - A number of local cultural agencies vital to our community's quality of life will also benefit from funding restorations:

Rochester Museum and Science Center, \$200,000; Rochester Philharmonic Orchestra, \$60,000; Memorial Art Gallery, \$30,000; George Eastman House, \$30,000; Genesee Country Museum, \$30,000.

Along with the restorations mentioned above, the 2003 Budget also contains funding for the Bureau of Environmental Quality and the County's Foster Care Clinic.

In addition to the restorations this budget also provides for:

- The creation of a new Department of Human and Health Services – a part of our County's effort to reform the delivery of social services. The Departments of Social Services, Mental Health, Aging and the Youth Bureau, along with certain divisions of the Department of Health, will be merged into this new department. The result should dramatically improve service to our clients in need while saving taxpayers \$30 million in 2003, with additional savings anticipated in future years.
- The Department of Public Health will also be reformed to oversee the critical community health functions that are not included in the creation of the Department of Human and Health Services. The Public Health Department will have an improved focus on monitoring community outbreaks of diseases such as the West Nile Virus and Salmonella, as well as assist in addressing the challenges presented by bio-terrorism.
- Public safety spending will increase to help preserve the safety of our community. As a County, we have always been committed to maintaining the safe neighborhoods that are vital to a vibrant community. However, this commitment comes at a cost. Monroe County's public safety expenses have risen by over \$40 million during the past seven years, while our revenues for these programs have remained flat.

In addition to increases in the area of public safety, Monroe County continues to grapple with numerous fiscal pressures:

- **Medicaid Costs** – Almost the entirety of Monroe County's share of sales tax revenue, \$115.8 million, will be consumed by Medicaid costs in 2003. The average taxpayer now pays \$447 a year just to support the County's mandated share of Medicaid. These costs have increased an incredible 42.6% in just six years, and over 85,000 Monroe County residents will receive Medicaid benefits next year.
- **Health Insurance** – The cost of providing health insurance to our employees and retirees continues to grow at an alarming pace, 135% over the past eight years. Monroe County will pay \$42.1 million for health insurance in 2003.
- **Sales Tax** – Monroe County remains the most generous county in the

State in sharing its sales tax revenue. However, this generosity comes at a cost. The County's annual share of the sales tax has actually dropped by over \$5 million since 1995. Meanwhile, the share received by the City, the Towns and Villages, along with the suburban School Districts has actually increased by nearly \$60 million.

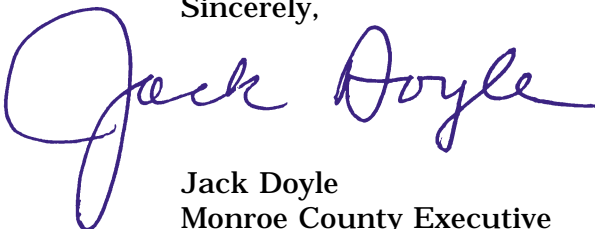
These pressures, along with numerous additional increases in other mandated programs, have left us with no alternative than to seek spending reductions in other areas. The budgets of our local families and businesses cannot afford the alternative; a tax increase that would cripple the creation and retention of private sector jobs, which is essential to the future of our community.

The specific legislative actions required are:

1. Pursuant to Section C4-3 of the Monroe County Charter, schedule a public hearing on the Monroe County Annual Budget and direct the Clerk of the Legislature to cause notice of said public hearing to be published at least once in one or more daily newspapers of general circulation in the County at least 10 days before the date of said hearing and to cause a summary of said budget, as attached hereto, to be published together with said notice.
2. Pursuant to Section C4-4 of the Monroe County Charter, adopt the Monroe County Annual Budget for 2003 after said public hearing having been held.
3. Establish the 2003 Monroe County Classification, Compensation and Salary Schedule for employees of the County of Monroe, as contained in the Monroe County Annual Budget for 2003.

I recommend that this matter be referred to the appropriate committee(s) for favorable action by Your Honorable Body.

Sincerely,



Jack Doyle
Monroe County Executive



2003 Monroe County Budget

General Overview of the Budget

In gross expense, the 2003 proposed budget totals \$914.5 million, which is \$40.4 million less than the 2002 adopted budget of \$954.9 million.

Mandated services continued to drive Monroe County's budget, 69.2% of gross expenditures are in mandated services including welfare, Medicaid, the jail and probation.

However, mandated expenses in 2003 will be reduced substantially, due to the sweeping reform of the County's social services delivery system highlighted by the creation of the Department of Human and Health Services.

For the last ten years, property tax stability has strengthened the local economy and protected family budgets. Despite considerable challenges, the 2003 County budget maintains this commitment by keeping the tax levy stable for the 11th consecutive year.



2003 Budget Overview

	Budgeted 2002	Budgeted 2003	% of 2003 Budget	% of Growth
Mandated Services	\$668.4	\$633.1	69.2%	-5.3%
Federal/State Initiatives	69.9	67.5	7.4%	-3.5%
Locally Controlled Programs	216.6	213.9	23.4%	-1.2%
TOTAL	\$954.9	\$914.5	100%	-4.2%

Budgetary Pressures

This budget has been established within the framework of considerable challenges, with County costs increasing as a result of forces beyond our ability to manage or control. Notwithstanding our conservative fiscal policies, our mission has been made much more difficult in the past several years. The predominant factors contributing to the County's budget challenges include:

- Mandated expenses set by the Federal and State governments;
- The County's largest area of expense, Medicaid, continues to expand at an alarming pace;
- The cost of employee benefits is growing well beyond the rate of inflation;
- Due to changes mandated by the State Comptroller, the County's budget expenditures for retirement benefits will increase by 85% in 2003;



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- The County's declining share of sales tax revenue;
- The effect of the stagnant economy on revenues from investment income and the sales tax.

Collectively, these factors have "tipped the scales" and undermined a 2002 budget that was "precariously balanced," and necessitated extraordinary cost-cutting strategies to bring the proposed 2003 budget into balance.

The budgetary issues confronting Monroe County are not unique. Nearly every county within New York State has reported declining investment income and sales tax receipts as well as significant increases in State and Federal mandates without accompanying revenue increases. Many counties have reported substantial reductions in the availability of fund balance, while several have also proposed tax rate increases; some upwards of 20%!

Fiscal Strategies & Additional Challenges

During the last decade, Monroe County was able to harness favorable economic conditions that gave rise to sizable increases in sales tax receipts and significant reductions in welfare caseloads. While caseload declines have been remarkable, increases elsewhere in the budget, principally Medicaid, have offset savings realized through caseload reductions. During this period of economic prosperity, Monroe County looked for better and more efficient strategies to improve the delivery of services, and implemented efficiencies that consolidated, streamlined, or outsourced numerous operations.

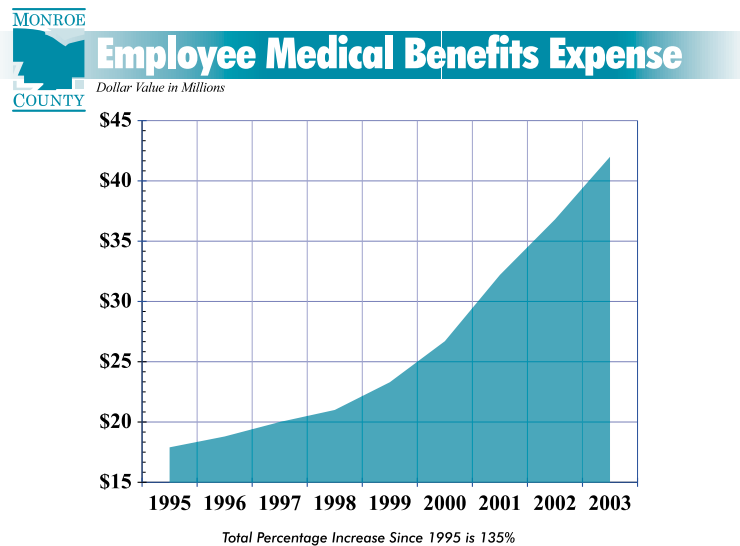
However, despite our decade of commendable fiscal accomplishments, State and Federal mandates have exacerbated the County's current economic and budget uncertainties including:

- Continuing expansion of Medicaid programs. Family Health Plus (FHP) and Child Health Plus (CHP) will, in 2003, account for an additional \$1.3 million, a 112% increase from 2002. These programs while laudable, place an additional burden on already limited resources. FHP, signed into law as part of Health Care Reform Act (HCRA 2000), provides comprehensive health care coverage to low income, working adults, many of whom have children enrolled in the CHP program. Under the plan, counties are required to contribute 50 percent of the non-federal share of these costs;
- The enactment of HCRA 2002 has increased the County's Medicaid spending by \$2.6 million in 2003. HCRA 2002 provides funding for workforce recruitment and retention of nursing home staff, increased health care provider rates, expanded coverage up to 250 percent of the Federal poverty line to uninsured women with breast and cervical cancer as well as expanded Medicaid to disabled persons who have entered the workforce;
- The elimination of "revenue sharing" to the counties intended as reimbursement for the local costs of the Family Health Plus Program (FHP). Monroe County's share, \$1.5 million, will not be available in 2003;
- For the second consecutive year, the State budget did not provide counties with Consolidated Highway Improvement Programs (CHIPS) Operation and Maintenance funds, for a cumulative loss of \$1.6 million;
- A six (6) percent nursing home assessment tax will be imposed on Monroe Community Hospital (MCH) gross receipts on all patient care services and operating income, with an expected loss of \$300,000 revenue to the County;
- Monroe Community Hospital (MCH) is also faced with a major revenue shortfall resulting from the loss of the Intergovernmental Transfer (IGT), a State/Federal funding stream used by county-owned nursing facilities to leverage Medicaid reimbursement. MCH expects to lose a total of \$3.1 million from 2002-2005 with an expected cumulative reduction in revenue in 2003 of \$1.6 million;

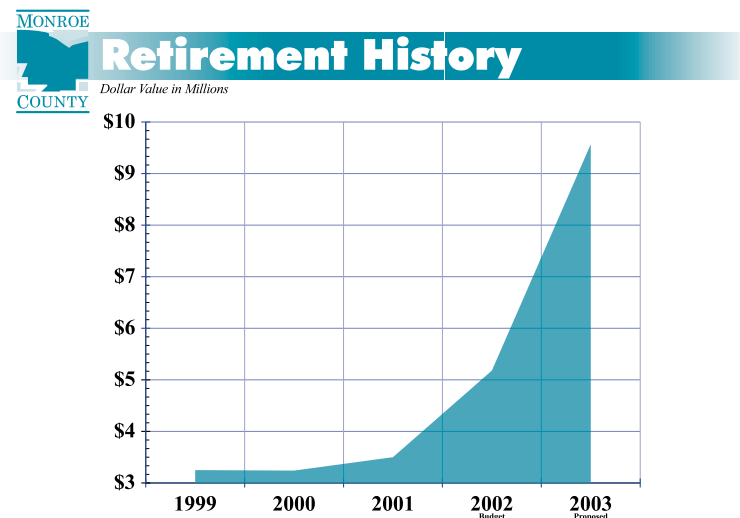


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- Temporary Assistance for Needy Families (TANF) funding for the County's critical employment and transitional services has been cut with a resultant loss of \$860,000;
- Employee benefits continue to increase dramatically. Since 1995, medical insurance has increased at an alarming rate of 135%, for an average annual increase of nearly 17%;



- For the second consecutive year, retirement rates will increase as well. In 2003, \$9.6 million has been budgeted for retirement, bringing the total increase to 85% over 2002. The State Comptroller has mandated rate increases which are anticipated to range from 3% to 6% this year and these increases are expected to continue into the foreseeable future;





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- Changing economic conditions have adversely affected sales tax and, to a lesser extent hotel tax receipts. Investment income will continue to fall as a result of plummeting interest rates as well as less cash available to the County for investment purposes;
- Expansion of the law governing Persons in Need of Supervision (PINS) to include 17 and 18 year-old adolescents. While the County's comprehensive reforms in the delivery of human services will moderate 2003 expenditures, future budgets will likely require a substantially increased funding commitment for Probation, Family Court and the Human and Health Services budgets to adequately provide for a greatly increased caseload.

Medicaid

The cost of Medicaid in Monroe County is continuing to grow at an extraordinary rate. As has been the trend since 1999, Medicaid represents the County's largest single expense or 18.6% of the total County budget. For 2003, Medicaid will increase \$15.8 million or 11.4 % over the 2002 budgeted levels. Viewed in more concrete terms, Monroe County will spend nearly \$3 million weekly for Medicaid in 2003!

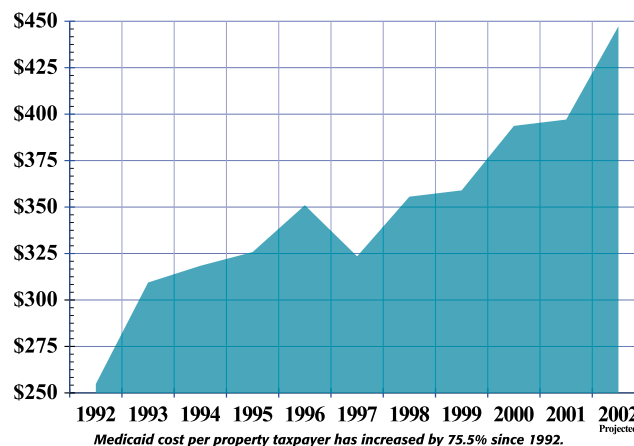
Growth in Medicaid is largely due to expanded program eligibility and service coverage. Major contributing factors accounting for this dramatic increase include costs associated with Home and Community Based Services, prescription drugs, and HMO enrollment which have increased 297%, 175.6%, and 126.3% respectively between 1997- 2003.

It is noteworthy that between 1996-2003 Medicaid expenses grew by 32.1%. County data reveals that between 1996-1999 Medicaid expenditures increased a mere 3.5%. However, Medicaid expenditures soared 27.7% between 1999-2003.

Today, nearly 85,000 County residents receive Medicaid benefits. More dramatically, nearly one out of nine residents or 11.7 % of the total County population receives Medicaid benefits.



Medicaid Costs per Property Taxpayer



In 2002, the average annual net County cost of Medicaid per property taxpayer will be approximately \$447. In other



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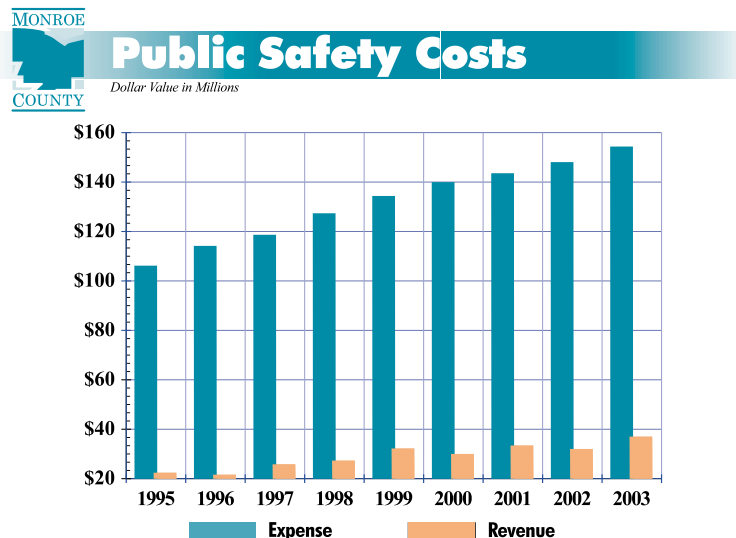
terms, Medicaid costs this year will consume all of Monroe County's Sales Tax revenue. Most importantly, without the burden of this year's increase in Medicaid expenditures, County property taxes could be reduced by 4.46%. In addition, if the County's Medicaid burden was removed entirely, property taxes could be reduced by a full 49%.

Other Expenditures

In light of ever-increasing mandated costs, the County has had to implement cost-saving measures at all levels of operations and forego many new initiatives. In 2003, with the exception of Public Safety, the proposed budget does not provide for any new programs.

Public Safety

Recognizing that the primary responsibility of government is to provide for the safety of the community, and mindful of the national and regional impact of the horrific events resulting from the September 11 attacks, Public Safety spending will increase significantly in 2003. Totalling \$154.4 million, public safety spending represents 16.9% of the total 2003 budget and will increase by \$6.4 million over 2002.



Over the past decade, the County has made a substantial investment in Public Safety operations. Total appropriations have increased by 67% or \$62 million in the last ten years. Importantly, this spending has continued to increase despite declining revenues to support such programs.

It is also noteworthy that the Sheriff's budget comprises nearly 58% of the total Public Safety spending for 2003. Spending for the Office of the Sheriff has increased 9.5% in 2003 or almost \$8 million from 2002. Of this amount, \$46.8 million has been allocated to the Jail Bureau in recognition of the need to provide for adequate staffing for the impending opening of the new jail in January 2003.



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Cost-Cutting Initiatives

Over the years, the County has made a concerted effort to pursue strategies that have resulted in cost-cutting efficiencies and practices, ranging from annual operations reviews to exhaustive analyses of ways to maximize revenues. In 2002 alone, the County required:

- All Department Head salaries be frozen at 2001 levels;
- All discretionary spending be frozen at 2001 levels;
- Department Heads were instructed to prepare a 2003 budget plan reflecting 10%, 15%, and 20% spending reductions;
- A County-wide hiring freeze, unless essential to health and public safety;
- All non-essential capital projects will be postponed, with the expectation that the 2003-2008 CIP will avoid \$21.3 million in borrowing over the next two years and defer a total of \$41.6 million through 2006.

Tobacco Securitization

The securitization of tobacco settlement revenues continues to benefit the County. Monroe County saved nearly \$23 million in 2002 and will save nearly \$20 million in 2003 by using the settlement proceeds to pay off existing debt and to fund the cost of additional capital projects.

In particular, funds applied to the jail expansion project alone are estimated to save \$3.3 million each year for the next 20 years.

Reforming the Social Services Delivery System

Central to the County's 2003 budget and its future fiscal stability is the reform of Monroe County's Social Services delivery system. A major outgrowth of this effort will be the creation of the Department of Human and Health Services. The Departments of Social Services, Mental Health, Office for the Aging and Youth Bureau, along with certain programs of the Department of Health will be merged into the new department. In addition, the Department of Public Health will also be reformed and oversee critical community health functions with an improved focus on monitoring disease outbreaks and threats from bio-terrorism.

The proposed reforms are the result of a study conducted by Altrey Consulting and Monroe County. The County will generate \$30 million in savings in 2003 due to the reform effort, and it is anticipated that there will be additional savings in future years.

Currently, social services functions are oriented around funding streams, which are generally structured along program and/or mandate lines, resulting in a program-oriented organizational structure. The new department will be re-oriented as process-based organizations rather than "assemblages of programs" to ensure that the efforts and resources of the County are focused on outcomes rather than the maintenance of programs.

Several key functional areas within the new department will achieve sizable savings due to the reform of the delivery of social services. Foremost among these are savings opportunities in the Medicaid program. Without doubt, our costs remain



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volatile and represent a significant obstacle to the County's financial stability. Increased and timely attention given to recertification of eligible cases will provide upwards of \$4 million in savings to the County. The process-related approach applied to closings will reduce growth that would have otherwise increased 14.2% over 2002 budgeted levels.

Family Assistance and Safety Net caseloads will also drop precipitously as a result of the recommendations set forth by the study. The combined Family Assistance and Safety Net caseload decrease is projected at 27.2% over 2002 budgeted levels for total savings of \$12.4 million. This is a remarkable accomplishment in view of the five (5) year limit on federally-funded benefits that took effect in New York State in December 2001. Individuals having reached their sixty (60) month limitation of receiving Family Assistance benefits are now eligible for the Safety Net Program which requires a 50% County contribution as opposed to the 25% County match for Family Assistance benefits. Projected caseload reductions will offset the impact of Family Assistance clients transitioning to the Safety Net program.

Significant savings will also accrue to Adolescent Care and Child Welfare services. A combination of a reduction in foster care residential placements, rate renegotiations and enhanced utilization of existing facilities will reduce spending by approximately \$2.9 million.

Special Children's Services consisting of the Early Intervention and the Education for Children with Disabilities programs will achieve in excess of \$2 million in savings resulting from service rate renegotiations and optimization of service levels.

Other Cost-Saving Initiatives

Additionally, for 2003, the County has implemented further cost-saving measures, including:

- Eliminating scheduled raises and step increases for all management and professional personnel with total projected savings of \$1.4 million;
- Reducing the County workforce by 700 positions saving an estimated \$35 million;
- Implementing the merger of the Department of Facilities Management into the Department of Environmental Services (DES) Division of Engineering. This merger will result in reduced administrative and overhead expenses and improved space management for all County-owned and leased space. Centralizing these services will provide greater flexibility in providing the necessary services associated with building operations and capital project management. A new computer-aided facilities management system will be used in conjunction with the Department of Environmental Services (DES) to provide a centralized, coordinated approach for work order management, service calls, asset management and preventive maintenance. Total savings for 2003 are estimated at \$4.8 million.
- Financial functions will be streamlined by bringing back staff from assignments throughout the County into central locations, and thus avoid the need to fill vacancies or add staff in these areas. Finance staff from the physical services sector (Transportation, Environmental Services, Parks, Facilities Management, Airport, and Human and Health Services (Health and Social Services) have been consolidated into the Department of Finance to achieve increased efficiencies and improved services. Two distinct units within the Controller's Division have been created and will focus exclusively on seeking timely collection of State and Federal aid as well as grants and fees. This consolidation will also manage contract preparation and monitoring as well as accounts payable. Total savings are estimated at nearly \$800 thousand.



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Fund Balance

Monroe County has had a very moderate fiscal margin, also known as fund balance, over the past decade. In fact, the County fund balance was never greater than 6.2 percent of expenditures in its peak year of 1997. This is considered by financial experts to be a small figure compared to the overall size of Monroe County's budget.

The current administration, with approval of the County Legislature, has consistently chosen to spend down a portion of the prior year's ending fund balance to stabilize property taxes.

Monroe County's fund balance was therefore consumed by use of these funds to maintain tax stability, along with the need to pay for increased costs in mandated programs, particularly Medicaid. In addition, the national economic downturn and the resulting declines in investment and sales tax income negatively affected the County's fiscal margin.

Conclusion

Monroe County faced severe financial challenges in 2002 requiring a series of remedial actions to abate our financial difficulty. The national economic circumstance, due to the lingering effects of the September 11 attacks, pushed the County into a financial situation requiring both short and long-term solutions. In the short run, Monroe County has taken action to respond to the challenge brought on by these regrettable circumstances. However, the national, state and regional economy will, no doubt, affect our financial future.

Despite the numerous challenges confronting the County, Monroe County still remains the most generous county in New York State with respect to the level and extent of support provided to our constituent communities. Without doubt, the financial support, as provided for in our sales tax sharing agreements with the City of Rochester, Towns, Villages and School Districts is more generous than any county in the State. Although the County initiated substantial spending reductions for 2003, these reductions have not materially affected our municipal partners.

The proposed 2003 budget is a responsible budget and one that reaffirms our commitment to fiscal responsibility. It is a budget that ensures the financial integrity of the County, protects our most vulnerable citizens and ensures that all Monroe County citizens enjoy a quality of life that is unsurpassed in New York State.